

Alternative Fuel Income Tax Credits

(Revised 05/06)

NOTE: All links to DOR forms referenced in this document require you to have the free [Adobe Acrobat Reader](#) software. FYI tax publications referenced in this FYI have a direct link Web page link to them.

ALTERNATIVE FUEL VEHICLE CREDIT

Colorado income tax credits are available for the purchase of an alternative fuel vehicle, for a motor vehicle that is converted to use alternative fuel, or for the replacement of the power source with a power source that uses alternative fuel. To qualify, the vehicle must be titled and registered in Colorado. (§39-22-516 C.R.S.)

The credit is only available in the year during which the vehicle was purchased or converted. If the credit allowed exceeds the net tax liability for that year, any excess credit may be carried forward and claimed on future year returns for up to five years until the credit is fully utilized.

Definition of Alternative Fuel

Alternative fuel means compressed natural gas, propane, methanol and ethanol, or any mixture thereof containing 85% or more of methanol or ethanol by volume with gasoline or other fuels, electricity, or any other fuels, which may include, but are not limited to, clean diesel and reformulated gasoline so long as these other fuels make comparable reductions in carbon monoxide emissions and brown cloud pollutants as determined by the air quality control commission.

Computation of Credit

The credit is a percentage of

- a) the difference between the cost of the vehicle and the cost of the same or most similar vehicle that uses a traditional fuel, or
- b) the cost incurred in converting the vehicle to an alternative fuel, or
- c) the difference between the cost of replacing the power source and the cost of the same or most similar power source that uses a traditional fuel.

In a) and c) above, if the cost of the traditional fuel option is greater than or equal to the cost of the alternative fuel option, the credit will be \$0.

The percentage of the credit depends on the certification level of the vehicle and the year in which the expenditure is made.

Certification Level	Tax year beginning prior to January 1, 2010	Tax year beginning on or after January 1, 2010, but prior to January 1, 2012
Low-emitting Vehicle (LEV)	50%	25%
Ultra-low-emitting vehicle or Inherently-low-emitting vehicle (ULEV or ILEV)	75%	50%
Zero-emitting vehicle (ZEV or SULEV)	85%	75%

Certification levels have the same meaning as set forth in the air quality control commission regulations governing the clean fuel fleet program. A near zero-emitting vehicle shall be treated as a zero-emitting vehicle. At this time the California certified SULEV (Super ultra low emitting vehicle) is the only vehicle that qualifies as a near zero-emitting vehicle.

The percentage of the credit is doubled, up to a maximum of 100%, if the vehicle or power source permanently displaces (will never be operated on Colorado highways in the future) a vehicle or power source that is ten years old or older. You must provide a copy of the bill of sale to an out of state buyer or salvage yard to claim this extra credit.

Credits Available for Selected Common Vehicles

The amount of the credit available has been computed based on a price comparison with the most similar vehicle using manufacturer and industry data. Therefore, the amount of the credit available has been computed based on a price comparison with the most similar vehicle using manufacturer and industry data.

Ford Escape Hybrid

2005 Ford Escape (Front Wheel Drive):

Incremental price difference - \$ 3,245

Tax credit available \$ 2,758

2005 Ford Escape (Four Wheel Drive):

Incremental price difference - \$3,290

Tax credit available \$ 2,797

2006 Ford Escape (Front Wheel Drive):

Incremental price difference - \$ 3,325

Tax credit available \$ 2,826

2006 Ford Escape (Four Wheel Drive):

Incremental price difference - \$3,360

Tax credit available \$2,856

2007 Ford Escape (Front Wheel Drive):

Incremental price difference - \$ 2,285
Tax credit available \$ 1,942
2007 Ford Escape (Four Wheel Drive):
Incremental price difference - \$2,320
Tax credit available \$1,972

Honda Accord Hybrid

2005 Honda Accord Hybrid:
Incremental price difference - \$3,915
Tax credit available \$2,936
2006 Honda Accord Hybrid:
Incremental price difference - \$3,775
Tax credit available \$3,209

Honda Civic GX

2004 Honda Civic GX (Natural Gas):
Incremental price difference - \$4,500
Tax credit available \$3,825
2005 Honda Civic GX (Natural Gas):
Incremental price difference - \$4,500
Tax credit available \$3,825

Honda Civic Hybrid

2003 Honda Civic Hybrid (Automatic):
Incremental price difference - \$3,215
Tax credit available \$2,411
2003 Honda Civic Hybrid (Manual 5-speed):
Incremental price difference - \$3,015
Tax credit available \$2,261
2004 Honda Civic Hybrid (Automatic):
Incremental price difference - \$3,440
Tax credit available \$2,580
2004 Honda Civic Hybrid (Manual 5-speed)
Incremental price difference - \$3,240
Tax credit available \$2,430
2005 Honda Civic Hybrid (Automatic):
Incremental price difference - \$3,075
Tax credit available \$2,306
2005 Honda Civic Hybrid (Manual 5-speed)
Incremental price difference - \$2,875
Tax credit available \$2,156
2006 Honda Civic Hybrid
Incremental price difference - \$3,375
Tax credit available \$2,531

Honda Insight

2002 Honda Insight:

Incremental price difference - \$3,970

Tax credit available \$3,375

2003 Honda Insight (Automatic):

Incremental price difference - \$3,670

Tax credit available \$3,120

2003 Honda Insight (Manual 5-speed):

Incremental price difference - \$3,470

Tax credit available \$2,603

2004 Honda Insight (Automatic):

Incremental price difference - \$5,070

Tax credit available \$4,310

2004 Honda Insight (Manual 5-speed):

Incremental price difference - \$5,070

Tax credit available \$3,803

2005 Honda Insight (Automatic):

Incremental price difference - \$5,545

Tax credit available \$4,713

2005 Honda Insight (Manual 5-speed):

Incremental price difference - \$5,575

Tax credit available \$4,181

2006 Honda Insight (Automatic):

Incremental price difference - \$5,220

Tax credit available \$4,437

2006 Honda Insight (Manual 5-speed):

Incremental price difference - \$5,020

Tax credit available \$3,765

Lexus RX 400h Hybrid

2006 Lexus RX 400h (Purchased prior to 11/1/05):

Incremental price difference - \$4,395

Tax credit available \$3,736

2006 Lexus RX 400h

(purchased on or after 11/1/05):

Incremental price difference - \$ 4,050

Tax credit available \$ 3,443

Toyota Highlander Hybrid

2006 Toyota Highlander (Base Grade) (Purchased prior to 11/1/05):

Incremental price difference - \$4,555

Tax credit available \$3,872

2006 Toyota Highlander (Limited Grade) (Purchased prior to 11/1/05):

Incremental price difference - \$4,500

Tax credit available \$3,825

2006 Toyota Highlander (Base Grade) (Purchased on or after 11/1/05):

Incremental price difference - \$4,305
Tax credit available \$3,659
2006 Toyota Highlander (Limited Grade) (Purchased on or after 11/1/05):
Incremental price difference - \$4,220
Tax credit available \$3,587

Mercury Mariner Hybrid

2006 Mercury Mariner
Incremental price difference - \$3,715
Tax credit available \$3,158
2007 Mercury Mariner
Incremental price difference - \$2,665
Tax credit available \$2,265

Toyota Prius

2001 Toyota Prius:
Incremental price difference - \$4,172
Tax credit available \$3,546
2002 Toyota Prius:
Incremental price difference - \$4,622
Tax credit available \$3,929
2003 Toyota Prius:
Incremental price difference - \$3,612
Tax credit available \$3,070
2004 Toyota Prius:
Incremental price difference - \$3,150
Tax Credit available \$2, 678
2005 Toyota Prius:
Incremental price difference - \$4,040
Tax Credit available \$3,434
2006 Toyota Prius
Incremental price difference - \$3,865
Tax Credit available \$3,285

"Mild" Hybrid Vehicles

Mild hybrid vehicles such as the Chevrolet Silverado, Dodge Ram, and GMC Sierra do not qualify for the alternative fuel vehicle credit.

Neighborhood Electric Vehicles (NEV)

NEVs do not qualify for the alternative fuel vehicle credit because they cannot be operated on Colorado highways. [§39-22-516(2.5)(a)(III) C.R.S.]

Used Vehicles

A vehicle can qualify for this credit only one time. To claim the credit on the purchase of a used vehicle a taxpayer must:

(a) Provide a history of the vehicle and receipts indicating the prior owners and why they did not claim this credit.

(b) Provide the cost difference used in computing the credit and the basis on which it is computed.

- The cost difference will usually decrease ratably with the decrease in the value of the vehicle. For example, if the price paid for the used vehicle is 40% of the original MSRP, then the credit allowed will be 40% of the credit available for that vehicle when new.

- If a ten-year old vehicle had a new alternative fuel engine put in one-year ago, then the vehicle must be compared to the most similar vehicle valued with a one year old gas engine, not a ten-year old engine.

Common Questions

Does a low emitting vehicle that runs on traditional fuel (gasoline or diesel fuel) qualify for this credit?

No. The low emitting vehicle operates on traditional fuel and therefore could not be distinguished from the same model of car.

Does the purchase of a vehicle that can operate solely on traditional fuel, but can also operate on alternative fuel at the owner's option, qualify for the alternative fuel vehicle credit?

No. A vehicle that can operate solely on traditional fuel does not qualify for the alternative fuel vehicle credit. A qualifying vehicle must:

- operate solely on the alternative fuel, or
- operate on alternative fuel and traditional fuel at the same time, or
- operate on alternative fuel some of the time and on traditional fuel some of the time.

Furthermore, the cost of a flex fuel or dual fuel vehicle is the same as the most similar vehicle that can operate exclusively on traditional fuel, which results in a credit of \$0 (e.g. most vehicles that can use E85 fuel or biodiesel).

Can a leased vehicle qualify for this credit?

Lessees of qualifying vehicles are eligible for the alternative fuel vehicle credit. The available credit is calculated by subtracting the value of the vehicle when the lease expires from the cost of the vehicle to the lessor at the time of the lease transaction (capitalized cost), and dividing that amount by the cost of the vehicle to the lessor at the

time of the lease transaction. This percentage is then multiplied by the qualifying expenses to determine the amount of the expenditure that can be used in computing the amount of the credit. Only the lessor or lessee of the vehicle may claim the credit. If the vehicle is converted at the factory, the lessor has the option of claiming the credit or passing the right to claim the credit to the lessee. If the lessee converts the vehicle, then only the lessee may claim the credit.

Alternative Fuels Rebate Chart

Certification Level incurred	For costs incurred	For costs incurred	For costs
	prior to July 1, 2006	on or after July 1, 2006 but prior to July 1, 2009	on or after July 1, but prior to July 1, 2011
Low-emitting Vehicle (LEV)	50%	25%	0%
Ultra-low-emitting vehicle or Inherently-low-emitting vehicle (ULEV or ILEV)	75%	50%	25%
Zero-emitting vehicle (ZEV or SULEV)	85%	75%	50%

ALTERNATIVE FUELS REBATE-GOVERNMENTAL AND CHARITABLE ORGANIZATIONS

If the motor vehicle that qualifies for the alternative fuel vehicle credit is owned by the State of Colorado, a political subdivision of the state, or a tax exempt organization, and is used in connection with the official activities of the entity, the entity will be eligible for a rebate computed in the same manner as the credit that would have been calculated under the guidelines of the alternative fuel vehicle credit using the same percentages in the chart above. Each qualified entity is limited to \$350,000 per state fiscal year in total rebates paid. (§39-33-102 C.R.S.)

Qualified entities may apply for this rebate with the following forms:

- ["Alternative Fuels Rebate Instructions" \(DR 0166\)](#)
- ["Alternative Fuels Rebate Form" \(DR 0167\)](#)
- ["Dealer or Installer Certification Form" \(DR 0168\)](#)